WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP 11.13.2009

MESSAGING RESOURCES/POLLING UPDATE

Republicans Are Working To End The Bailouts. The Republican substitute subjects failed financial firms to an enhanced bankruptcy process - rather than an open-ended "resolution authority" overseen by government officials - which is the only way to once and for all end taxpayer funded bailouts. The Democrats' proposal enshrines in law a misguided "too big to fail" doctrine that skews market incentives and leads inevitably to taxpayer-funded bailouts. Instead of implementing reforms that protect taxpayers by ending future bailouts of Wall Street, Democrats are proposing numerous amendments which create the facade of ending bailouts but fail to remove the government's guarantee on the financial system.

A Resolution Fund, No Matter How It Is Funded, Is Still A Bailout Fund. The Democrats' bill calls for the creation of a revolving bailout fund. Democrats are expected to offer an amendment to prefund the bailout fund from industry assessments. However, no matter the funding, the government would still be bailing out "too big to fail" firms, and taxpayers will pay to rescue Wall Street, in one way or another. If the fund is capitalized at $200 billion, as Chairman Frank reportedly intends, that amounts to an average tax of $1.7 billion levied on each firm. These assessments will devastate these firms' balance sheets and drain capital from the financial system-capital that could be used for lending or investment that would create jobs and fuel economic growth.

- Requiring Receivership As The Only Course For The Government To Take When Resolving Insolvent Firms Will Address The Problem Of Taxpayer Bailouts Only In Theory. Without requiring bankruptcy as the only option for resolving any firm of any size, the permanent bailout machine will still be very much alive and taxpayers will continue to be exposed to possibly huge losses.

- Banning Capital Investments In Financial Firms Only Addresses One Of The Six Tools That Were Used Last Fall By Treasury, the Fed, and FDIC To Bail Out Various Firms and Their Creditors. Bankruptcy addresses all six. The other five are: (1) lending taxpayer funds against the assets of a company, as the government did with Fannie, Freddie, AIG, Chrysler, and GM, and as it did with TARP funds; (2) selling or transferring a company's assets, as the government did with AIG; (3) purchasing the assets of a company, as the government did with AIG; (4) guaranteeing a company's obligations, as the government did with Bear Stearns, AIG, Citigroup, and Bank of America; and (5) lending taxpayer funds against the assets of a company, as the government did with GM and Chrysler

- Instead Of Limiting The Size Of Financial Institutions, We Should End "Too Big To Fail." Continuing the policy of "too big to fail" provides the market with incentives to take on too much risk because when things end badly, the losses are handed to someone else-the taxpayers. The problem isn't that some institutions are large, but that the government's too-big-to-fail policy creates moral hazard by relieving creditors of the burden of having to be vigilant in assessing the creditworthiness and business practices of the parties to whom they are extending credit. Bankruptcy will end "too big to fail" and provide the right market incentives.

ON THE HORIZON

Tuesday, November 17 (and subsequent days): The Full Committee will convene at 10 am to continue consideration of the Democrats' bailout authority legislation; H.R. 2609, the Federal Insurance Office Act; and H.R. 3904, the Overdraft Protection Act in room 2128 Rayburn.

WEEKEND MUST-READS

Wall Street Journal: "Fed Slaps Curbs on Overdraft Fees ... The Federal Reserve imposed rules Thursday making it harder for banks to hit customers with fees for overdrawing their accounts, in the latest crackdown from the government that could curtail a major revenue stream for financial institutions."

Wall Street Journal: "Acorn and the Housing Bubble ... All agree that the bursting of the housing bubble caused the financial collapse of 2008. Most agree that the housing bubble started in 1997."

Wall Street Journal: "The FHA's Bailout Warning ... Critics of Fannie Mae and Freddie Mac were waved off as cranks and assured that the companies wouldn't need a taxpayer bailout right up until the moment that they did."

LA Times: "FHA reserves fall below legal limit as loan defaults take toll ... The Federal Housing Administration's cash reserves have shrunk to a level far below what is required by law, and the agency could need taxpayer funding if worst-case scenarios play out, according to an independent audit."

Washington Times: "Banks to prepay $45 billion to insurance fund ... U.S. banks will prepay about $45 billion in premiums to replenish a federal deposit insurance fund now in the red, under a plan adopted Thursday by federal regulators."

Wall Street Journal: "Treasury Blocks the Sale of Tax Credits by Fannie... The U.S. Treasury blocked Fannie Mae's proposed sale of nearly $3 billion in low-income housing tax credits to Goldman Sachs Group Inc. and Berkshire

Hathaway Inc. on Friday after concluding that the deal was too costly for taxpayers.

Wall Street Journal: "Congress's Blank Check for Housing ... Fannie Mae and Freddie Mac are burning a huge hole in the Treasury's pocket. But the Obama administration is getting something very valuable in return: the ability to provide immense support to the housing market with only limited interference from Congress.

Wall Street Journal: "Fewer Banks Decide to Tighten Credit ... Fewer banks tightened lending standards for businesses and consumers during the past three months, the Federal Reserve's latest survey of loan officers showed, a sign that the credit crunch's grip may soon ease."

LA Times: "GMAC is only major bank that needs more bailout money, Fed says ... GMAC is the only major bank that will need additional bailout money after it was unable to raise enough capital on its own, government officials said Monday."

Washington Times: "Federal Reserve opposed as big bank savior by odd allies ... An unusual alliance of conservatives and liberals is pushing to break up or downsize banks deemed "too big to fail," rather than create a new regulatory regime led by the Federal Reserve to try to keep them from getting into trouble again."

Wall Street Journal: "White House Aims to Cut Deficit With TARP Cash ... The Obama administration, under pressure to show it is serious about tackling the budget deficit, is seizing on an unusual target to showcase fiscal responsibility: the $700 billion financial rescue."

COMMITTEE REPUBLICANS IN THE NEWS

Rep. Scott Garrett issued the following press release: Garrett Statement on Committee Passage of SOX Amendment. He also filmed this YouTube video on the Democrats' bailout authority bill.

Rep. Thaddeus McCotter filmed this YouTube video on the Democrats' bailout authority bill.

Rep. Spencer Bachus issued these press releases: Bachus: CIT Bankruptcy Highlights Folly Of Legislative Proposal To Make Federal Reserve The Systemic Risk Regulator; Bachus: Democrats Legislation Still Leaves Investors Without The Protections They Deserve; Bachus, Kyl: There Is No Justification For Delaying UIGEA Compliance; Issa, Bachus Request Information On Financial Health Of FHA; Bachus: It Is Time To End The Bailouts

CARTOON OF THE WEEK

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